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Review of Evidence on Broad Outcome of Public Sector Management Regime

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ABSTRACT

The paper summarises research material on the outcomes of the public sector management regime, with an emphasis on material produced from 1995 to 1999, covering the core public sector and Crown Entities. It identifies an apparent consensus about the strengths and weaknesses of the regime and evidence to support the consensus.

Strengths include: more efficient production of outputs; a more responsive and innovative public sector delivering better services; improved financial accountability; and improved overall fiscal control.

The main weaknesses identified relate to the effectiveness of the regime in delivering outcomes. The paper notes a widespread perception of a lack of empirical data on the effects of the reforms and comments on areas where further evaluation may be desirable.

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I Introduction

- 1 This report has been commissioned by the New Zealand Treasury to provide a summary of research material on the outcomes of the current public sector management regime, with an emphasis on material produced in the last five years. The coverage includes the core public sector and Crown Entities, but not State-Owned Enterprises. In general Crown Companies, educational institutions, schools and hospitals are also excluded from coverage. The report is intended to have a strongly empirical content, where possible drawing on quantitative material, case studies or strong anecdotes. The full Terms of Reference appear in Annex 1.
- 2 The objective of the report is not to present a review of the reforms. It is to briefly identify what appears to be a consensus of the main strengths and weaknesses of the reformed public sector management regime as it has developed since the late 1980s, *and to focus on what evidence there is in support of these conclusions.* We have made no attempt to reach our own conclusions on the outcomes of the reforms or the efficiency or effectiveness of the current regime, nor to rank or weight the views of others.
- 3 The report was prepared within a tightly constrained time frame. The approach was therefore of necessity based around a literature search drawing on existing bibliographies, and a review of material provided by the Treasury. It was not possible to sight all the potentially relevant material, to conduct a comprehensive review of all the material to hand, or to conduct a search for less well known material. The expectation, however, is that most of the important material will have been covered.
- 4 New Zealand's public sector management reforms have attracted a lot of interest, both within New Zealand and internationally. There is a wide range of views about the success or otherwise of the reforms. There also seems to be some shift in perceptions over time, as the disadvantages of the previous regime fade and the weak points of the new regime become more apparent.
- 5 One area where there is a wide consensus, however, is over the difficulty of evaluating the effects of the reforms. The difficulty of evaluation is partly due to the problem of establishing the counterfactual. With so many reforms occurring simultaneously, a period of fiscal restraint over much of the period, and other changes in the political and economic environment, attributing observed changes in outcomes to the public sector management reforms is extremely difficult.
- 6 There is also a widespread perception that there is a lack of empirical data on the effects of the reforms:

“Quantitative evidence of the effects of the reforms on the operations of government departments is scarce. (OECD, 1996, p.108)

“...the available quantitative and qualitative data concerning the costs and benefits of many of the changes is relatively sparse.” (Boston (1999), p.6).

“... there was a dearth of empirical data on which to assess the success of the regime, even where criteria could be clearly defined.” (Kelsey, 1998), p.144).

- 7 The structure of the report is as follows:
Section II provides a brief description of the contrast between the old public sector management system and the system put in place from the late 1980s.
Section III sets out the main strengths of the current public sector management regime, as identified by various reviews, and describes the empirical support for them
Section IV sets out the main weaknesses identified by various reviews, and describes the empirical support for them
Section V comments on some broad areas where further evaluation may be desirable, and contains some concluding remarks

II A Brief Synopsis of the Reforms of the Public Sector Management System.

- 8 Well-known and serious problems in the management of the New Zealand public sector were brought officially to notice in the Auditor General's 1978 report on financial management and control. That report found serious management and operational deficiencies in many government departments.
- 9 A number of these deficiencies were set out by Treasury in 1984 in the briefing document to the incoming Government, *Economic Management*. It identified the core problems of the public sector as:
- most departments had no clearly defined goals or management plan
 - there were few effective control mechanisms to review the performance of departments in meeting the required outputs
 - departmental managers had little freedom to change the way their departments operated to meet their goals, especially in staffing matters
 - too much influence was placed on control of inputs
 - there were no effective review mechanisms for dealing with poor performance by senior management.
- 10 A theoretical framework was developed over the next 3-4 years which aimed to address these and other problems. That framework drew heavily on principles in the theoretical economic and management literature of that time dealing with

- principal/agency relationships, public choice and contractual models of employment and service delivery. It also embodied elements of private sector financial management practice, including especially accrual accounting techniques.
- 11 The reform programme which developed from this framework involved the consistent, sector-wide application of the following core themes:
 - decentralisation of management to departments
 - a separation of policy advice and operations where possible
 - the commercialisation of trading activities and the adoption of commercial principles for the delivery of most core government services
 - strengthening of financial accountability and transparency
 - 12 The key objectives of the reforms have been described as:
 - assisting the government to translate its strategy into action.
 - informing decision making and accountability.
 - encouraging a responsive and efficient public sector. (Source: Treasury, “Putting It Together”, p.67.).
 - 13 These reforms were initially implemented primarily through new legislation comprising the State Owned Enterprises Act 1986, the State Sector Act 1988 and the Public Finance Act 1989. Aspects of the reforms had also been made possible by the Official Information Act 1982 and were extended in some areas through changes introduced under later legislation, particularly the Employment Contracts Act 1991 and the Fiscal Responsibility Act 1994.
 - 14 The reform process involved a substantial degree of structural change in the creation of State Owned Enterprises, Crown entities, re-structured departments and sectors (e.g. science, forestry, conservation and social welfare) and the introduction of school Boards of Trustees and new health management entities (e.g. Regional Health Authorities, Health Funding Agency and Crown Health Enterprises). The process of change has clearly been on-going during the 1990s with some of these departments and entities being subsequently merged, re-structured or dismantled in favour of new management structures.
 - 15 The reforms have embraced a wide range of complex issues and changes. Many of these changes have been part of a wider process of structural change within the economy and need to be viewed in that context. In this report, however, we focus primarily on assessing the evidence of direct impacts from just the key managerial reforms within the core public sector departments and agencies and Crown entities.

III Perceived Strengths of the Public Sector Management System

- 16 The main strengths identified by a variety of reviews are:
(A) more efficient production of outputs
(B) a more responsive, innovative public sector delivering better services
(C) improved financial accountability
(D) improved overall fiscal control
- 17 Each of these perceived strengths is described briefly below, including references to reviews or sources. The available empirical evidence is then discussed.

(A) More Efficient Production of Outputs

- 18 There is a fairly wide consensus that the reforms have resulted in a more efficient public sector. For example:
The OECD concluded in 1999 that “...the core public sector has been reduced substantially in terms of both its share of expenditures and employment. Given that higher levels of outputs have been produced with lower levels of inputs, productivity has increased, costs have come under better control due to accounting changes and many departments have attained departmental surpluses.” (OECD, 1999, p.88).
Martin: “...the series of structural reforms which, under two governments...has unquestionably assisted the achievement of considerable efficiency gains...” (Martin, 1995, p.37).
Kelsey (1998) “...*some of the changes genuinely increased efficiency and accountability. ...*”
- 19 In order to get a better reading on the impact of the reforms on productive efficiency, however, it is necessary to go to a more dis-aggregated level.
- 20 There are four main sources of evidence on the impact of the reforms on productive efficiency – that is, the ratio of inputs to outputs. These sources are:
a A Treasury study in 1996 on the effects of Financial Management Reform.
b Case studies of change in individual government agencies
c Output Price Reviews completed by central agencies since 1996.
d Process Reviews

Treasury’s 1996 Study

- 21 In a 1996 paper Brumby et al studied productivity trends in the core government sector by constructing average unit cost series for core “process” outputs supplied by four departments. For one department (Valuation NZ) the study found clear evidence of underlying productivity improvement since 1989/90: “The fall in average unit costs for this aggregated series is of the order of 10-20 percent in nominal terms between 1989/90 and 1994/95...” (p.19). For two other agencies (The Immigration Service, and the Income Support Service) the study found strongly declining average unit costs over some or all of the period studied, but because volumes were also rising it was not possible to be certain that this represented a rise in underlying productivity. For the fourth department (The Department of Justice) the limited available data showed no evidence of productivity gain either before or after the reforms.
- 22 The study concluded: “Results from the study..... are only a limited guide to changes in productivity in the public sector as a whole, because of the small size of the sample and the risk of sample selection bias....It should be pointed out again here that the analysis of unit cost data cannot show how much of a change in trend can be attributed to change in the public sector management system: ministers may have been more determined to get results, or technological changes may have offered greater gain....This unit cost evidence can reasonably be interpreted as providing a measure of support for the proposition of improved productivity performance in departments.” (p.24).

Case studies of change in individual government agencies.

- 23 A case study of the Reserve Bank of New Zealand (Menzela,1994). While the changes were internally initiated, Mendzela found that the techniques used (a single explicit objective, output budgeting, restructuring, customer focus, operating autonomy, and tight accountability) were similar to and heavily influenced by the techniques used in the core state sector. The study concluded that substantial real efficiency gains were achieved by management changes at the RBNZ over a five year period to 1993. “...staff numbers and real operating costs [both] fell 43 percent. At the same time effectiveness was maintained or improved.” (p.iii). The unit cost of new note issue fell by one third. (p.10).
- 24 A case study of contracting out the functions of the Audit Office (McDonald and Anderson (1997). After the first four tender rounds, between 1992 and 1994, “Audit fees have been lowered by between 12 per cent and 25 per cent....The response of those clients involved has been almost universally positive so far, and there has been particular comment on the improvement in Audit New Zealand’s performance over the last two years.” The study noted that the significant unanswered question is whether or not the quality of audits has been affected, and indicated experience had also revealed some negative factors and risks. For example, the risk was noted of contracting firms to audit more political clients

without full briefings on the auditor's role.

- 25 A case study of the Income Support Service of the Department of Social Welfare from 1992-1997. (Petrie, 1998). The study found evidence of “a significantly increased workload, improved quality, a new capability to deliver customised service, and substantially lower funding in real terms, all [pointing] to an underlying increase in productive efficiency. This is consistent with the Treasury study [Brumby et al, cited above].for the period 1991/92-1993/94.” (p.58). The combination of the case study, and the unit cost analysis might be seen as lending weight to the conclusion of a favourable impact of public sector reform on productive efficiency in IS. However, the study considers that, while public sector reform was an essential pre-condition for the changes, there are a number of other contributing factors, such as a new IT system, transformational leadership, and the relatively non-complex nature of IS outputs.

Output Price Reviews.

- 26 An output price review is an exceptions-based process initiated by Chief Executives who consider that they have reached the limits of productivity gain and efficient operation within their existing baseline. The central agencies work intensively with a department to assess the case for an increase in output prices. This entails a fundamental review of the department's efficiency, and generally involves the use of outside specialist consultants. There have been three completed output price reviews¹: of the Statistics Department, of Police, and of the Ministry of Foreign Affairs and Trade. There has also been a Baseline Review of the Education Review Office, which covers very similar ground.
- 27 Findings of these reviews that throw light on the productive efficiency of departments include:
- Ministry of Foreign Affairs and Trade - the efficiency examination concluded that MFAT had pursued reprioritization of outputs extensively in recent years, had good input management processes and operated business activities at competitive prices. Over the period 1992/93 to 1996/97 the Ministry absorbed (in addition to inflation) an average of over \$4 million a year in additional output and input cost. During the five years to 1996/97 the Ministry also returned to the Crown some \$100 million, through a combination of mandatory savings, capital withdrawals and asset sales. MFAT prices for the provision of PR activities were less than one half of those quoted by external traders; for the provision of international legal advice MFAT prices were less than one third.
 - ERO – the review was satisfied that ERO is adopting good cost management and organisational practices, and industrial relations strategies. “There appears to be limited scope to secure significant additional savings within the organisation over the short term...[There] does not appear to be any significant capacity for ERO to reduce staff numbers without impacting on output delivery and/or future

¹ A fourth, of Customs, is understood not to have been completed.

capability... Our recommendation therefore is to support an increase in the ERO output price....”

- 28 On the other hand the review of Police found scope to achieve savings in a number of areas, particularly in relation to personnel expenses. The review also highlighted deficiencies in Police’s management information systems. The Statistics Review found in a pilot exercise that the current prices for two outputs were broadly comparable to externally benchmarked prices, if anything slightly above them.
- 29 The overall conclusion of these four reviews is clearly mixed. The Police review found significant scope for further savings, and inadequate management information systems. The ERO review found the Office to be operating efficiently. A similar result emerged from the MFAT review, with in addition some quantitative estimates of previous re-priorisation, and efficiency compared to external comparators.
- 30 However, this is a very limited sample of departments, and one that seems likely to be biased – the TOR for a Baseline review are written in such a way as to create down-side as well as up-side risk for a department going through the process. It seems more likely that departments reasonably confident of a positive outcome would seek such a review.

Process Reviews

- 31 In 1993 Price Waterhouse surveyed government departments on the implementation of the capital charge regime. The survey of ten departments concluded that “there are sufficient examples of the way in which the charge has influenced behaviour to state unequivocally that the concept has been successful...”. The survey did find there was a notable variation in the extent to which the capital charge has been integrated into departmental management decision making.
- 32 A post-implementation review of the cash management reform project undertaken by Deloitte Ross Tohmatsu in November 1990, which found quantifiable government-wide benefits of over \$37 million per annum from saving in interest costs through departments using supplier credit, and eliminating idle balances in imprest accounts.

(B) A More Responsive, Innovative Public Sector Providing Better Services

- 33 One of the central objectives of the reforms was to free managers from central controls, and to give them the flexibility to use their superior information about their particular activities and client needs to improve performance. Innovation and the use of private sector management techniques were expected to result. The key

- mechanism to implement this change was the shift to appropriating by outputs rather than inputs, together with the new accountability arrangements.
- 34 There is a widespread consensus that important benefits have flowed from these changes.
 “The results are in abundant evidence: strategic business plans, quality improvement and customer service techniques, innovative employment and compensation schemes, organisational development initiatives, use of information technology to revolutionise business processes, and effective marketing and public relations campaigns.” (SSC, 1998, p.9).
 “There is evidence...of improvements in the quality of certain services (e.g. the time taken to process applications for passports and welfare benefits has been drastically reduced)...and major improvements in the quality of information available to policy makers.” (Boston, 1999, p.13).
 “Responsibility for HRM [human resource management] has been decentralised to departments and devolved to line managers. There is no support from either union or management for a return to the pre-1998 system. All believe that decentralisation has been vital to the achievement of a range of HRM reforms...Differences of opinion are mostly about the appropriate degree of devolution within departments and the ability of line managers to carry out their responsibilities.” (Boston et al, 1996, p.222).
- 35 Easton, however, contends that the reforms resulted in a reduction in service provision; and that equity and fairness are no longer a consideration in setting public sector remuneration. “Departments, already under pressure from burgeoning demands...tended to reduce service as a means of coping with the reduced resources available to them. There was no real mechanism for the government to assess this service reduction.” (Easton, 1997, p. 176).
- 36 The 1991 Logan Review of the new public sector management system found that the reforms had been well conceived and had brought significant benefits that outweighed their costs. The Review consisted of interviews with Ministers and senior managers, surveys of senior officials and finance and planning managers, case studies of selected issues, and submissions. The devolution of HRM and associated reforms were considered to have permitted more efficient recruitment, retention, and management of people and to have improved HRM overall in the public service.
- 37 In 1995 the OECD published an assessment of reforms to human resource management in member countries (OECD 1995). The assessment was based on information collected and analysed over several years, a questionnaire to all OECD countries, and case studies in selected departments and agencies in nine countries, including New Zealand. We are not aware which agencies in New Zealand participated, or how many took part. The study found:
 “The departments examined in New Zealand had made major changes to their

- performance management systems, so that individual performance agreements and staff development plans are clearly geared to the achievement of corporate objectives. Several departments felt they still had some way to go in achieving the desired level of integration.” (OECD, 1995, p.132).
- 38 The Auditor General’s 1999 Report, "Towards Service Excellence" examines practice in five agencies: Tenancy Services, Intellectual Property Office, Department of Conservation, Passports Office, and NZ Customs. The study found substantial evidence that the agencies had adopted contemporary business practices and were strongly client-focused. Some were developing a systematic approach to understanding who their clients were and their particular needs. Other agencies needed to follow this approach. All agencies needed to develop better communication with clients and to understand better the impact of their services on the client.
- 39 There is further evidence of innovation and client focus from the series of case studies published by Victoria Link, “Cases in Public Sector Innovation”. For example: “In 1995 the new Department of Courts...set about changing its processes, technology, and culture...By mid-1997, the unit responsible for collecting and enforcing fines had switched its focus from reactive enforcement to proactive, customer-centred collection...One manifestation of the new order was the installation of a ... Call Centre, staffed by people with a background in sales and customer service rather than law enforcement.” (Smith and Norman, 1998, p. 1).
- 40 Some evidence on the role of leadership in the implementation of the reforms can be gleaned from “Change Manager Case Studies” produced by Smith and Norman (see Smith and Norman, 1997 and 1998).
- 41 Some further evidence can be gleaned from the views of senior managers. In research among a sample of senior level managers in 1994, Stace and Norman found that agreed statements about what is working well in the new system included:
 “More ability and opportunity to change, develop, refocus departmental activity to match changing needs.”
 “A very clear focus on serving the Minister and the Government of the day rather than private agendas.”
 “The public service has become more client focused. The general public receive a better service.”
 Participants were nearly unanimous in endorsing the comment that “removal of the monopoly service provision by...central supply and service agencies is a healthy development.” (Stace and Norman, 1994, pp.27-28).
 On the other hand the survey revealed strongly divided views on the effectiveness of employment contracts, and concern that government restrictions meant that

- salaries are out of kilter with the private sector.
- 42 One particularly important concern raised about the quality of service delivery is the appropriateness of mainstream government services for Maori. In 1991 Government transferred responsibility for programmes and initiatives aimed at reducing Maori disadvantage previously administered by the Department of Maori Affairs, to mainstream departments. As far as we are aware, no evidence has been collected on the effectiveness of mainstreaming as a policy. Relevant factors here are that Maori are disproportionately over-represented amongst the clients of many mainstream departments and agencies, and the importance attached to reducing the current disparities in social and economic outcomes between Maori and non-Maori (as described in Te Puni Kokiri, 1998).
- 43 Boston, Martin, Pallot and Walsh state: “TPK has encountered significant difficulties in undertaking its statutory responsibilities to monitor mainstream programmes...Reasons for this include....an understandable reluctance by departments to have their performance scrutinised by yet another agency; TPK’s lack of legislative authority to require agencies to provide the necessary information; and the failure of many agencies to collect data relevant for the purposes of assessing the impact of their services on Maori...More positively, with public agencies contracting out an increasing range of services, Maori have the opportunity to develop services specially geared to their needs” (Boston et al, 1996, p.157).
- 44 It is understood that a number of departments have information on Maori client satisfaction with service delivery. One such survey of which we are aware is “Maori Perceptions of Experiences of the Court System”, a report prepared for the Department of Courts and the Ministry of Maori Development in August 1997. We are not aware of any comparative surveys over time, however, nor of any collation or analysis of survey information across agencies and departments.
- 45 One other commonly expressed concern about service delivery is what has been termed the “silo effect”. This refers to a perception that, in rigorously pursuing the delivery of outputs negotiated vertically agency by agency, some important cross agency and cross-sectoral dimensions were lost sight of. (See for instance Schick, 1996, OECD, 1999). Other factors may have been an increase in the competitive element between agencies associated with some of the reforms, and the disruption caused by widespread restructuring. There is no hard evidence for this, given the presence of confounding factors, such as the coinciding period of fiscal restraint in the early 1990s. However, information coming out of the Strengthening Families initiative relating to gaps and overlaps in funding and service delivery for children in disadvantaged families perhaps provides some support for the contention. (See Bazley, 1998, and Angus 1999). More importantly, perhaps, the evolution of the Strengthening Families initiative might be seen as evidence of the system

evolving in a positive direction.

- 46 Finally, there have been concerns about the inappropriate use of private sector approaches in the public sector. For instance, commentators such as Martin (1995) have pointed to concerns about government agencies viewing recipients of services as clients when the services concerned are citizen entitlements established in law. A somewhat different view, as suggested by the title, is presented in The Victoria Link Case Study on the collection of court fines by the Department for Courts, "Criminal or Customer?" (Smith and Norman, 1998).

(C) Improved Financial Accountability

- 47 A further hallmark of the reforms, viewed as a necessary concomitant for delegating authority to department managers, was the conscious attempt to strengthen accountability. A number of commentators have commented on this. For example, Schick (1996) commented that in New Zealand accountability was not treated as an afterthought, but was consciously built into the system at the outset. "The most highly developed system for holding top managers personally accountable for their own performance and that of their organisation is found in New Zealand." (OECD, 1995, p.132).
- 48 Stronger financial accountability in particular is seen as one of the clear successes of the New Zealand reforms. This has been achieved through the adoption of accrual budgeting for the full cost of outputs, new instruments such as Purchase and Chief Executive Performance Agreements, and an increase in financial reporting and transparency with respect to Parliament and the public.
- 49 The Auditor General audits departmental performance reports annually. Each dept is rated against five criteria (220 assessments in total). In the 1996/97 audit of departments he reported that about 70% of departments were rated good or excellent for their financial management. In his First Report for 1999 there were no assessments of "Not Adequate". The overall average of assessments has been rising since 1994.
- 50 There is also a series of reviews of the financial management practices of departments conducted as part of the Financial Management Assurance function of the Treasury. These reviews generally show satisfactory financial management practices and performance. For example:
- A review of departmental and Crown financial reporting information by Coopers and Lybrand in 1995 found overall that information produced in "output" format is reasonably accurate, at output class level. It did however note quite strong concerns about the systems and the accuracy of data at a more detailed level than output class, and to the costing information provided for management purposes and information.
 - A review of monthly financial reporting by Price Waterhouse in 1996 which

- found that the financial information provided to Treasury is generally robust.
- A review of purchasing practices by KPMG in 1998 found that departments operate sufficient internal controls to ensure the maximum expected control standards are met.
 - A review of cash management systems by KPMG in 1999 found that controls over cash management are adequate and are operating effectively.
 - A review of physical assets by PricewaterhouseCoopers in 1999 found overall that the internal control policies and systems, relating to physical assets recorded in the Crown Financial Statements was found to be adequate.
- 51 Some additional evidence can be gleaned from the Stace and Norman survey of senior managers. Senior managers agreed with the following statements: “better financial discipline and checks on unnecessary activity” (as a result of user pays). “Better financial reporting in my organisation” and “at the government level.” “The introduction of private sector methods of accounting rated more positives and fewer negatives than any other feature of public sector change.”
- 52 On the other hand significant concerns have been expressed about accountability in the Crown Entity sector. In 1996 the Treasury stated “There has been less progress in clarifying the structures and accountabilities of some Crown entities. Since the Crown entities area is very large, and it includes some substantial areas of business, continued ambiguity of responsibility is a significant issue.” (Treasury, 1996). The Auditor General reported in 1997 that the quality of governance arrangements among six Crown entities studied varied markedly and that there were some significant shortcomings in arrangements (Auditor General 97/1, p. 110). For example, no general practice existed of Ministers periodically reviewing the purpose and operations of Crown entities.
- 53 A recent evaluation produced for Treasury concluded: “There appear to be a number of problems associated with the ex ante accountability documentation in the Crown entity sector, including poor specification of outputs, lack of clarity about purchase and ownership, and lack of clarity about the purpose of specific documents, caused in part by the diversity of arrangements within the sector and lack of familiarity with the concept underlying the public management system.” (Public Sector Performance (NZ) Ltd. and Hitchener, 1999).
- 54 In response to these problems the July 1999 Crown Entities Initiative sought for the first time to set out clearly the expectations of Ministers, Boards, chief executives, departments and central agencies.
- 55 There have also been concerns expressed about a diminishing of Ministerial accountability. For example, Martin (1995, p.37) states: “...the more we fragment the structure of government by replacing command hierarchies with networks of contracts, the more we call in question the nature of responsible government by

attenuating the responsibility of elected representatives.”

(D) Improved overall fiscal control

- 56 Over the ten years since the introduction of the public sector management reforms there has been a significant improvement in New Zealand’s aggregate fiscal performance. A number of commentators have attributed the reforms as being an important contributing factor.
- 57 For example, the OECD has stated: “Although the effects of the public-management reforms cannot be isolated from, say, the changing preferences of politicians, the new management regime appears to be consistent with the restraint of expenditure in the 1990s. In fact, the move to output budgeting, for example, may have helped, by allowing ministers to make clear decisions about what they were no longer going to purchase or what “prices” they were going to reduce...” (OECD, 1996, pp107-108).
- 58 Brumby et al examined trends in central government expenditure since 1971/72. They found that the historical trend of increasing central government spending as a share of GDP was sharply reversed in the early 1990s. They also found that the government’s demanding 1991 targets for reducing public expenditure by 1993/94 were achieved with some precision. “This shows that the new system of budgetary control allowed tight expenditure control. It is possible that a sufficiently determined government could have reversed the upwards expenditure trend with the previous apparatus, but expenditure trends from earlier times suggest that governments were not able to do this. New Zealand’s performance compared with other countries also looks strong from this perspective..... The evidence is therefore consistent with, although it does not conclusively establish, FMR [financial management reform] having made it easier to control public expenditure.”
- 59 OECD (1996, p.107-108) looked at changes in current consumption of central government, a measure which they state at least excludes the effects on tax revenue and social welfare benefit expenditure of macroeconomic developments as well as certain policy changes unrelated to the public sector management reforms. They found that real government consumption, measured in 1982/83 prices, has risen throughout the 1980s, but broadly stabilised over the period 1989/90 – 1994/95. They also found that removal of staff limits for government departments in 1988 does not appear to have entailed any long-term increase in employment. “instead, total employment in core government has fallen markedly since then.” [from nearly 56,000 to less than 53,500].

- 60 Some attempts have also been made to assess the extent to which the reforms facilitated expenditure switching to reflect government priorities. Scott (1996, p. 79) found that, while NZ governments have been able to change expenditure directions both before and after the reforms, before the reforms the shift in priorities was made more by new spending and at the expense of the deficit. After the reforms, however, the shift was achieved more by reallocating spending. (Scott (1996), p.79). Brumby et al find some evidence from analysis of cumulative percentage change in SNA outlays by function, that reprioritisation decisions in the period 1990/91-1993/94 were supported by the new financial management apparatus. They caution however that there are weaknesses in the data, and make the point that it is not possible to assess the relative contribution of the government's determination to implement change and the reformed system's ability to implement it.
- 61 An SSC survey of pre-SRA and post-SRA appropriations in four departments (selected because of the importance of their contribution to a particular SRA) showed that there was no significant shift in the resources allocated to these departments, despite their new strategic responsibilities. (SSC, 1998, p.28).
- 62 Some support for the proposition that the reforms improved the government's ability to control and redirect public spending can be gleaned from consistent statements made by senior Ministers.
- 63 For instance, Sir Geoffrey Palmer has said: "I shall never forget the experience of being a new Minister of a reformist Government in 1984 when we were confronted with a whole range of economic problems which demonstrated the Government was not really in command of the public policy of the country at all. Expenditure was driven by forces beyond the Government's control.... We set about bringing about the conditions that allowed us to control the levels of Government expenditure and priorities..... The State-Owned Enterprises Act 1986, the Public Finance Act 1989 and the State Sector Act 1988 were all driven by that imperative." (Palmer, undated).
- 64 In his book "Government Reform in New Zealand", Scott quotes the views of successive Finance Ministers as follows: "David Caygill.....expressed his satisfaction that the reforms had provided much improved information for budget decision making. Ruth Richardson...is unequivocal in her view that the reforms to core government administration gave her the "tools" to put the "lid" on public expenditure and to shift priorities.... Bill Birch, believes that the Government's abilities to prioritise and control spending have been enhanced by the reforms." (Scott (1996), pp.69-70).

IV Perceived Weaknesses in the Public Sector Management Regime

- 65 The main problems / weaknesses identified by a range of reviewers largely concern the “effectiveness” of the new regime. This is in contrast to the “efficiency” impacts which are widely regarded as being mainly positive, as discussed in the previous section.
- 66 By “effectiveness”, we mean the extent to which the structure, rules, systems, procedures and behaviour of the new public management regime deliver improved outcomes. While there is certainly agreement amongst many reviewers of improved effectiveness arising from the commercialisation of many government services, the effects of the reforms on the provision of policy advice and the delivery of effective “social services” (health, education, housing, welfare entitlements, Maori development, etc) and regulation are seen as more problematic.
- 67 To assess the views and evidence on these problems, we have broken down the “problems/weaknesses” identified by reviewers into a number of component parts. The first four of these in particular relate to the “effectiveness” issue:
- A) The Alignment of Outputs with Outcomes
 - B) Weaknesses in the Link Between Government Strategy and Budget Spending
 - C) The Potential for Conflict Between Purchase and Ownership Interests
 - D) Problems in Contracting for Outputs
 - E) Unforeseen Consequences of the New Regime
 - F) Uneven Performance of Departments and Agencies
- 68 Each of these perceived weaknesses is described briefly below, including references to reviews or sources and discussion of the evidence.
- A. Aligning Departmental Outputs with Government Outcomes**
- 69 A major component of the budget management reforms introduced under the Public Finance Act 1989 involved a switch from input to output budgeting. This innovation was designed to address three key issues: improved accountability by departments for their expenditure allocations, more efficient delivery of policy

- advice and operations and improved targeting of expenditure on policy objectives.
- 70 The documentation we have examined suggests a consensus for the conclusion that only the first two objectives have been achieved: improved accountability and more efficient production of outputs. A range of commentators, reviewers and those involved in managing the system - e.g. Schick (1996), Boston (1999), Scott (1996), Auditor-General (1999/3), Laking (1999) and Upton (1999) - have all drawn attention to the problems of linkage between outputs and outcomes. David Osborne² has gone considerably further: he argued that a major task for New Zealand is now to shift from output to outcome budgeting in which budget allocations are determined by programme or strategy, not output class.
- 71 In practice, there are two quite different aspects to this problem: the difficulty in relating specific departmental outputs to broadly defined outcomes, and the issue of diffused responsibility for the monitoring and achievement of outcomes. These two dimensions are reflected in the following quotes:
- “In the context of relating classes of outputs to outcomes, the term “link” (as used in the Public Finance Act 1989) has been interpreted narrowly. Usually, it has been thought sufficient simply to assert that a class of outputs will contribute to an outcome without describing how it is expected to do so.”* (Auditor-General 1999/3, p.46)
- “...there is scope for more innovation and policy evaluation in New Zealand’s public sector. Neither departments, nor central agencies, extensively monitor and evaluate outcomes.”* (OECD 1999, p.88).
- 72 Efforts to improve the specification of outputs over recent years have largely failed to resolve the problem that most, if not all, departments and agencies are still unable to draw a strong connection between their outputs and the resulting impact on Government’s policy objectives. One consequence of the perceived “policy failures” arising from this alignment problem is that departments or agencies, in the understandable interests of showing policy results, may bypass the output/outcome relationship altogether by defining new and/or additional policy objectives outside the outputs/outcomes framework specified under the Public Finance Act - e.g. Ministry of Science, Research & Technology³.
- 73 The annual process of output specification requires departments and agencies to re-evaluate how their activities might best contribute to Government’s objectives, expressed in the outcome statements (and, to a lesser extent, the strategic

² Author of “Re-inventing Government”, and member of The Public Strategies Group in a seminar to the Institute of Public Administration, Victoria University, 9 November 1999.

³ Blueprint for Change, Minister of Research, Science and Technology, May 1999. In this case, it is also proposed that the newly defined “target outcomes” would apply across related Votes (i.e. not only Vote: RS&T, but also to the research components of Votes Education, Environment, etc.).

priorities). Through this process, it should be possible to seek continuous improvement in the alignment of outputs and outcomes. However, there does not appear to be any evidence for these achievements.

- 74 The relative absence of detailed performance evaluation for public expenditure programmes has meant that the alignment of outputs with outcomes, although recognised as a problem, has not yet, as far as we aware, been addressed in any systematic way. None of the several major reviews and commentaries we cite above appears to base their misgivings on more than anecdotal or casual evidence of this problem.

B. Weaknesses in the Link Between Government Strategy and Budget Spending

- 75 In recent years, the Government has given increased attention to providing an overall strategic focus for policy interventions. This process has been formalised through the development of “Strategic Priorities and Overarching Goals” (SPOGs), Strategic Result Areas (SRAs) and Key Result Areas (KRAs). Several reviewers have noted that this strategic framework, including the various instruments through which the strategic objectives are intended to be translated through to departmental operations, has so far produced only mixed results. A study by the SSC (1997) concluded that the system, overall, had clarified the strategic objectives of Government and improved the “strategic conversation” between Ministers and chief executives. However, standards tended to be uneven across departments and many KRAs lacked sufficient emphasis on results or involved milestones which lacked challenge.
- 76 Even though there has been on-going improvement in the specification of KRAs the SSC (1998) still concluded that the “*main area for improvement (concerned) the weak connection between strategy and spending*”. It argued that a key part of the problem stemmed from the fact that private sector approaches to strategic management could not be as readily applied in the public sector given that governments invariably have multiple objectives - i.e. they lack the private sector’s “single, coherent sense of purpose”.
- 77 The Controller and Auditor-General (1999/3, p. 48) raises a different problem with regard to the use of SPOGs, SRAs and KRAs as a strategic framework for public policy. He considers these instruments “*have also been used as a substitute remedy for problems with the current accountability regime that should perhaps be corrected more formally.*” The “problems” referred to appear to be perceived shortcomings in the specification of government outcomes and their links to government outputs (discussed below). The Auditor-General also notes concern that SRAs/KRA’s are not part of any legislation and that, to the extent that this strategic framework substitutes for outcome statement deficiencies, it risks being

- “unlawful” (p. 49).
- 78 Although the specification of the strategic framework is improving, other reviewers also conclude that it continues to have limited influence on spending decisions - e.g. OECD (1999), p.88: “...*there is scope to strengthen the linkages between the budget and the government’s wider economic strategy, since the former does not necessarily allocate resources in an optimal manner.*”
- 79 The observation has been made (e.g. SSC, 1998) that most budget allocations have a strong historical bias which militates against short-term re-direction of resources to new strategic priorities. There is also the problem that most strategic priorities have tended to be broadly defined. As such, they may add little to Government’s existing “outcomes” as a directional focus for budget decisions. Conversely, the specification of KRAs has often been too narrow, thus failing to act as an effective link between strategic goals and departmental activities.
- 80 Firm evidence of the lack of connection between strategy and budget allocation and implementation is not readily available. However, at least one minister is on record as expressing frustration with the process: “*Ultimately, if any government wants traction on a strategic goal it needs to coordinate a coherent, well-researched and well-funded initiative...My own view is that the current SRAs are so broad and encompass so many activities that they cease to be useful.*” (Upton, 1999, p.13).
- 81 A 1998 survey of five ministers and 14 senior departmental officials by Brenda Tahi suggests there is a problem that the SRAs are seen as a product of the bureaucracy and are not owned by ministers - although the sample for this particular question seems to be very small. (Tahi, 1998, p.29.)
- 82 Laking (1999) has considered the public sector management regime from the point of view of its capability to deliver on strategic goals. He suggests that the language of government strategic objectives may be in the category of “deliberately emergent” - i.e. not too precise and not too vague - while the substructure for strategy (SRAs and KRAs) is built on the tightly defined model of output specification. He concludes that there may be a problem here (combined with other complications arising from principal/agent relationships and other political factors) such that governments may have considerable difficulty in specifying meaningful strategies in advance and in predicting the consequences of their actions.
- 83 The general lack of empirical evidence concerning these weaknesses may be attributed to the fact that the strategic framework has only been fully developed to its present form in the last two years. Hence, there has been limited time for new strategic directions and priorities to flow through into budget policy. (It could be argued that the new spending priorities identified in the Coalition Agreement did

not arise out of the formal strategic development process.) Part of the problem may also be that the broad scope of the Government's SPOG's means that most current expenditure policy is, arguably, already consistent with those objectives and that measurable changes in policy are so far unlikely.

(C) The Potential for Conflict Between Purchase and Ownership Interests

- 84 The Government has two main interests relating to the operation of public sector departments and agencies: the efficient supply of outputs determined primarily through the purchase relationship, and the longer term effectiveness, or capabilities, of the organisation to deliver on the government's policy goals.
- 85 Schick, (1996), SSC (1998) and Boston, (1999), have all noted the potential tension which exists between these interests. They argue that the desire for an efficient, low cost provision of outputs may be achieved at the expense of the longer term capability of the organisation. Thus, providing outputs at lower cost and meeting output performance measures may result in under-investment in management and staff development and in a deterioration in the integrity and the longer term commitment of employees.
- 86 There is broad agreement in the documents and publications we have reviewed that, in practice, the purchase interest has the potential to dominate the ownership interest under the new management regime. However, again, none of these documents - including the SSC, (1998), presented detailed evidence for their conclusions. The SSC (1998, p.14) states: "A number of departments display evidence of a high level of stress in terms of work-place relations and effective performance. They demonstrate low morale, employee dissatisfaction, and tensions between managers and staff....Some of this is an inevitable consequence of sustained pressure for performance improvement and cost control, but it may also be symptomatic of other things, such as cumulative under-investment in skills and technology and unrealistic output volumes and prices."
- 87 Perhaps some limited evidence of this problem is visible with respect to the Statistics New Zealand Output Price Review, which found that "SNZ's most immediate capability risk is related to its financial condition. Officially sanctioned ongoing deficits have resulted in depleted taxpayers funds and an unsustainable negative cash position." However, the review also found there was no positive evidence that SNZ was being underfunded or overfunded, and found scope for reprioritisation within the baseline. In any case, little weight can be placed on a sample of one department.
- 88 A recent review of ex ante accountability documentation found that "the documents individually and as a set do not adequately reflect the ownership

dimension of performance, in particular non-financial aspects of performance relating to future capability....reporting on each minister's accountability for the total activities of a portfolio is not comprehensive, particularly in terms of ownership performance." (Public Sector Performance and Hitchener, 1999).

- 89 Responses to the survey of public sector managers by Norman (1995) also imply that the problem may be real. The goal of more efficient provision of outputs seems to have increased the attractiveness and use of short-term contracts. However, some managers considered that this practice "worked against team ownership and responsibility" and had led to "less commitment and loyalty to the public service or the organisation" (p.24). These views are balanced to some extent by the general conclusion of the response group that the changes to the system "had enabled public servants to grow in expertise and professionalism."
- 90 The Auditor-General (1999) is less ambivalent, though again the problem is implied, rather than directly encountered. In his review of "capability expenditure" he concluded that:

"...at present there is no agreed means by which departments can establish realistic limits on the efficiency of their present output production methods. In the absence of this information, they are likely to have difficulty in resisting demands to achieve additional efficiencies. When realistic limits have been reached, the probable result of demands for additional efficiencies is poorer quality outputs. Given the current weaknesses in output specification and performance measurement, the loss of quality may not be readily apparent unless damaging or disastrous events begin to occur. (p.73)

(D) Contracting for Outputs

- 91 The majority of outputs from departments and agencies are contracted for through purchase agreements with the relevant minister. The underlying model is essentially a commercial one in which ministers and departments act as willing buyers and sellers of required outputs, whether they be services, policy advice or specific goods. The key advantage of this relationship is that should encourage clarity of purpose and specific accountability.
- 92 Boston, (1999), SSC, (1998), Easton, (1997) and Schick, (1996), however, note that the implied model in the purchasing relationship - i.e. a "marketplace" involving both buyers and sellers in a situation of competitive supply - does not accord well with reality. Much of the purchase activity within the public sector takes place in a non-competitive, or only partially competitive, environment. Thus, it is argued that there is often very limited scope for the "disciplines" of the market to ensure satisfactory, cost-effective outcomes. Schick (1996) and Easton (1997) argue that where outputs are difficult to define there is a legitimate interest

in the major inputs used to produce the output.

93 The problem is summarised by the SSC (1998, p.10):

The (purchase) model is that of the market place: buyer and seller haggling over price against a backdrop of competitive supply, discriminating demand, efficient price, symmetrical information and minimal transactions costs. Experience has shown, however, that none of the model's conditions can be reliably satisfied, even in a weak form, in the NZPS [NZ Public Service]. The market for NZPS outputs is characterised by monopoly supply, compliant demand, arbitrary price, asymmetry of information and time horizon, and significant transactions costs, many of which arise well after the transaction.

The concept of an efficient market fundamentally misrepresents the nature of NZPS production and exchange.”

94 The perceived problems associated with contracting for outputs have a number of dimensions. Boston (1999) focuses on the limited information and interest which ministers have in the purchase relationship. He doubts whether some ministers are as ‘discerning’ as the model implies or whether accurate pricing of outputs is even possible in the absence of competitive supply and where other forms of benchmarking is difficult.

95 The OECD (1996) also records these constraints associated with the purchasing model, but acknowledges that empirical assessment of the effects (including other budget management reforms) is difficult. Overall, it considers that the package of budget reforms is probably supported by improvements in the aggregate fiscal position of the Government. At the micro level, it cites the health sector as one in which the competitive purchasing relationship generally did not appear to have worked well, with the possible exception of the supply of residential care and some non-urgent surgery.

96 The Auditor-General (1999, pp. 68-69) raises a slightly different issue with regard to the effectiveness of the purchase relationship. The Purchase Agreement between a minister and department is essentially a quasi-contract that specifies the detail of outputs to be supplied and the price which is to be paid. In most cases, these agreements provide for some flexibility to vary outputs, provided that such changes do not conflict with appropriations or the descriptions of outputs as contained in the Estimates.

97 In practice, purchase agreements tend to be much more detailed than the Estimates. The Auditor-General suggests that this may provide the Executive with a degree of information and flexibility not available to Parliament, thereby abrogating it of specific authority. He also notes that there appears to be little clear guidance on what purchase agreements can and should contain and how these

- agreements should relate to various other official documents of entity purpose: for example Statements of Intent and Strategic Plans.
- 98 Much attention by departments has also been focused on the “specification of outputs” aspect of this problem. Initially, poor output specification limited the effectiveness of the “contractual relationship”, both in terms of what departments were being asked to provide and their capacity to review and assess their output performance.
- 99 Concern with this problem, and the implications that it has for budget allocations and performance assessment, has created a potential for what some reviewers (e.g. Schick, 1996) argue has now become a tendency for “excessive” specification of outputs. Managerial accountability may have improved, but at the expense of managerial responsibility for results. Schick also warned that a highly contractual approach may diminish public-regarding values and behaviour.
- 100 Schick also notes that the added cost and rigidity incurred by excessive output specification is reinforced in the performance agreements of chief executives. The requirement for detail is argued to lie in the importance of these documents for later assessment of accountability and performance. It is seen, however, as being at odds with the requirement for leadership, flexibility in responding to changed circumstances, innovation in policy advice and service delivery and an appropriate level of risk-taking (SSC, 1998).
- 101 Other problems also noted by the Auditor-General 1999/3 include the high compliance costs, especially for smaller departments, in specifying and costing outputs. At the same time, at least one minister (Upton, 1999) has commented on the “silo” effect of this contracting of outputs: each department tends to take a narrow view of what it is responsible for without knowing or assessing what other departments may be doing in this area or how budget resources as a whole could be more effectively deployed across the public sector in pursuit of the relevant policy goal. This has been confirmed to some extent by Norman (1995) whose survey of managers elicited the response: “... *the atomised nature of the public service means that we don’t know a lot about each other’s departments and services.*” (p.23)
- 102 However, while it is not clear from these arguments how much effect the lack of a competitive market environment for outputs may have on contractual efficiency, several operational studies suggest that there is cause for concern. A 1995 review for the Treasury by Coopers and Lybrand found that departmental and Crown financial reporting information is reasonably accurate at output class level. However, the reviewers had “*a number of quite strong reservations about both the systems and the accuracy of the data provided... These reservations relate to financial information at a more detailed level than output class and to the costing provided for management purposes and information.*” The Output Price reviews

- of Statistics NZ and Police also found weaknesses in their cost allocation systems. The Output Price Review of Police found that financial information was not collected by output, and there was a lack of meaningful performance measures associated with output delivery.
- 103 The Output Price Review of Statistics NZ also demonstrated the difficulty of benchmarking output prices against external comparators when there are no external producers of most of the outputs, and when there is a large number of different and interdependent production processes involved.
- 104 A 1997 review for the Treasury of contracting in central government found that “formal evaluation of contractors’ ongoing performance was often lacking. This creates a risk that the department is not receiving value for money from contracting and creates operational risks as to the quality of service delivery.” The same review found “generally there appeared to be little focus on contracting at a strategic level, except where outsourcing of departmental functions were undertaken.....this translates into a risk that inefficiencies may arise where contracting is inconsistent with strategy, or where contracting is not actively pursued.” (Deloitte Touche Tohmatsu (1997), pp.4-6).

(E) Unforeseen Consequences of the New Regime

- 105 Major changes in the public sector management regime were widely expected to involve significant adjustment costs, both for individual employees in the public sector and for the Budget as a whole. However, the scale of impacts may have had a longer term effect on individuals than had been anticipated and therefore on the quality and performance of the new regime.
- 106 In a similar sense, some of the impacts of the new regime have not been limited just to the adjustment process but are argued to have imposed on-going costs for sections of the community. Some of these costs are argued to have fallen disproportionately on some sectors of the population and on some communities in ways which were not intended or foreseen and which could undermine the benefits and durability of the new regime and/or militate against further improvements.
- 107 A consensus view in the managers surveyed by Norman (1995), was that: “*there is now a legacy of some mistrust that may well impede future changes*” and that there had been a misplaced emphasis on speed of reform, combined with a “*horrendous loss of institutional memory*”. Other managers expressed the view that there had been “*a corrosion of loyalty to the public service*”. Maharey, (1999), refers to the need for re-establishing a “common ethic” and “cohesive culture” in the public sector.

- 108 There is little empirical evidence of the views of front-line and lower level staff. However, something can be gleaned from one or two case studies:

“Change was often traumatic....communication between management and staff deteriorated when staff numbers continued to fall. Redundancy arrangements became especially contentious. Staff who were leaving often felt aggrieved, while those kept on saw less valuable staff receive generous redundancy payments. The reward for competence and motivation appeared to be sterner performance requirements, with remuneration falling as fringe benefits were cut back. Staff grew cynical as total numbers fell but senior management numbers did not. Morale fell.” (Menzela (1994), pp.7-8).

“The PSA considers front line IS [Income Support] staff reacted badly to many of the changes. “Many found the new image insulting to the intelligence. They felt they were just cogs in the wheel, and their views on how service could be improved were rejected. The whole process was very directive from the top.” (Petrie (1998), p.25).

“Internal issues have clustered around the management of culture change.....As a result, staff have felt stressed out, disempowered, and shell-shocked.” (French (1999)).

- 109 The Auditor-General (1999/3), also notes that the process of organisational restructuring has continued much longer than expected in some departments leading to a possible loss of focus, a decline in loyalty of some employees, an inefficient allocation of management and staff time away from the core functions and business and unnecessarily high transactions costs. The health sector is cited as an example of this problem. Logan (1991) noted the potential down-side of what was seen then as an apparently drawn out reform process after just 3-4 years.

- 110 The decentralised nature of the reform process has also meant that various agencies have made what appear to be individually sensible rationalisations of services without considering the wider, cumulative impacts of these decisions. The SSC (1998) cites the concerns reported to it that provincial areas in particular have borne a disproportionately high degree of the impact from the reduction and centralisation (or modernisation of delivery mechanisms) in many government services. The “atomisation” of functions referred to earlier is argued to have had, as one of its consequences, an inability for Government to see and respond effectively to these cumulative impacts (Upton, 1999).

(E) Uneven Performance Across Departments/Agencies

- 111 While there is general acceptance that the managerial reforms have been applied consistently across departments, the impact in terms of improved policy advice, more efficient provision of outputs, stronger accountability and better delivery of

- services is seen in some of the documentation we have reviewed as being quite uneven. The notion that some disparity of performance exists - and may reflect something about the way the reforms have been applied - is supported by the OECD (1996, p.109) which comments on "...the extent to which behaviour has changed varies across public-sector institutions...".
- 112 A number of reasons have been put forward for this uneven performance. The SSC (1998) acknowledge that the proliferation of small departments and entities may have over-extended the supply of capable senior managers available to the public service. Similarly, Boston, (1999), suggests that smaller departments may have difficulty in simply achieving a "critical mass of analytical talent". At the same time, the creation of multiple boards and advisory committees may have exhausted the supply of committed and able persons available to sit on them - at least to the degree where conflicts of interest can be fully avoided (Boston, 1999).
- 113 Public (and in some cases political) perceptions of this variation have also been evident from the extent of scrutiny and criticism which some departments have received (e.g. IRD, WINZ and Conservation) compared to others which have attracted little attention despite equally dramatic restructuring.
- 114 This perceived variation may simply be attributable to the degree of controversy associated with their respective activities, their size or other policy changes. However, it may also indicate that aspects of the new managerial regime have in fact been less successfully applied in some organisations or sectors.
- 115 It is perhaps suggestive that the four output price reviews referred to above found considerable variation in performance even amongst this self selected group of agencies. Bushnell (1998) reports a high degree of variation in the daily costs of policy advice from different departments, even after allowing for significant different structures and cost environments. The unmeasured dimension here was the quality of policy advice. Boston (1996, p.133) states that informal evidence suggests the performance of departments in the provision of policy advice varies considerably. "Some have acquired a well-deserved reputation for producing excellent work, whereas others have been much less successful." It is not clear what evidence there is for this.
- 116 There is however considerable evidence of uneven performance in a number of performance reviews. For example, the reviews of financial management performance by the Auditor General, the review of the use of consultants (Auditor-General (1997), the review of departmental costing systems (Coopers and Lybrand, 1995), the review of the implementation of the capital charge (Price Waterhouse, 1993), the review of Crown entity governance (Auditor General 1997/1), and the review for the Treasury of contracting in central government (Deloitte Touche Tohmatsu (1997).

V Areas Where Further Evaluation May Be Desirable

117 This review of the evidence on the impact of the public sector management reform has covered over 40 different reviews, reports and presentations. Within this body of documentation there is significant consensus on the major strengths and weaknesses, though this appears to be based on relatively little detailed analysis or empirical evidence. In particular, views on the weaknesses of the new regime appear to be mostly unsupported by clearly documented empirical evidence.

118 A number of suggestions have been made by those who have reviewed and commented on the effects of the public sector management reforms. A selection of these is contained below. It is important to note that some of these comments were made some time ago.

- “...there remains considerable scope for further research on the virtues and vices of the reformed public sector...” (Boston (1999), p.26). “...if the public management reforms in New Zealand are to be properly assessed, only a systematic and comprehensive approach will suffice.” (ibid, p.7)
- It is important to research the impacts of the new regime on staff (Schick 1996).
- “...there is a pressing need for survey data on HRM [human resource management] policies and practices across the public sector.” (Boston et al, 1996, p.217).
- “Further case studies need to be done to form deeper judgements about the sources of performance improvement in departments...” Scott (1996), p.17.
- John Martin has suggested there is scope for rewarding and on-going research on the advantages and disadvantages of the quasi-contractual arrangements between Ministers and entities. (Martin (1995), pp.49-50).
- “Better information on [departmental] performance is essential for enforcing accountability.” Treasury (1996, p. 111).
- Brumby et al suggest extending their analysis of unit costs to more process outputs (for example of IRD, Customs, Police, and of the main Crown entities). They also suggest attempting to establish the extent to which productivity improvements were caused by an independent influence, such as automation. “A useful complementary approach may be case studies of change in organisations over the period... This approach will be most useful when it can be set alongside hard evidence of the effects of change.” Brumby et al (1996, p.22.). They also

suggest further study is required on the possible contribution of the reforms to the ability of government to allocate resources in keeping with its priorities.

- “...the government should make analyses of the impact of mainstreaming [services to Maori] a priority. The current lack of thoroughgoing studies is lamentable.” (Boston et al, 1996, p.157).
- The SSC, in its 1998 “Assessment of the State of the NZ Public Service”, make a number of statements that suggest the need for additional evaluation and assessment. These include:
 - “Good strategy and intelligent government are impossible without the regular empirical assessment that leads to change in strategy...but outcome evaluation has largely not occurred.” (p.26).
 - “A better understanding of the operation of the public-sector labour market is also crucial – how it affects institutional capability, and what interventions might be needed to offset its adverse features.” (p.33).
 - “There is no systematic reappraisal of real departmental costs....the lack of such appraisal is cause for concern.” (p.29).
 - “The management of government-held information is critical, but the NZ Public Service has no means currently of systematically assessing information quality and management.” (p.18).

- 119 Beyond these suggestions, there is a broad consensus that a key weakness in the current regime is the lack of information on the effectiveness of the public sector. In essence, the current regime may be reasonably efficient in producing outputs, but the outputs may be the wrong ones. This suggests that a priority for effort should be assessing the current state of capability of the system in this regard, and investigating promising approaches that could improve capability in a cost-effective manner. One particular area that is frequently highlighted is the importance of better assessing the effectiveness of services provided to Maori.
- 120 As noted, there is also a wide consensus that the reforms have resulted in an improvement in the efficiency of the core public sector – although there is an enduring need to constantly assess the efficiency of departments and Crown entities given the difficulty of performance measurement in much of the core public sector. However, many reviewers have significant concerns about the effectiveness of the strategic management system, and the longer-term capability of the system.
- 121 The potential problem that any Government may have difficulty in converting its overall strategy into re-focused policy/expenditure decisions is sufficiently serious to warrant closer analysis. Whether this problem could be addressed, as the Auditor-General suggests (1999/3, p. 49) through improved specification of outcomes or, as the SSC suggests (1998, p.8) through improvements to the “strategic management methodology” could be a worthy focus for that further

- investigation.
- 122 There is a cluster of issues around capability that are suggested for further investigation. These include the adequacy of output prices, the impacts on lower level staff of operating in the new system, and the adequacy of senior management development. The reasons for the on-going observations of variability in performance across departments and agencies may also repay further investigation.
- 123 In considering the need for further research and evaluation, criteria that should be applied are:
- *tractability* – how amenable is the issue to empirical evaluation.
 - *policy relevance* – how important will the information generated be for future decisions on design of the public sector management system.
 - *cost- effectiveness* – how favourable is the ratio of expected benefits to expected costs.
- 124 A key strategic issue is getting the right balance between centralised and decentralised responsibilities for evaluation. One means of improving system performance is to attempt to strengthen incentives on departments to improve their understanding of the impacts of their policies, and to demonstrate their efficiency. An alternative approach is a more prescriptive and centralised approach in which departments and agencies are required to follow certain prescribed procedures. These are clearly not mutually exclusive. Whatever approach is pursued, however, it is important that there be a clear strategy for ensuring adequate and effective investment in assessing the effectiveness and efficiency of the public sector management system.
- 125 A key first step, however, in considering whether and where additional resources should be invested, is to ensure that best use is made of existing information. It seems likely that there is useful information within government departments, Crown entities, and possibly outside the government, that is not generally known, on the effects of the reforms and the operation of the current regime. It may also be useful to assess whether the information available publicly is sufficient to facilitate detailed analysis and research by those working outside the government.

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Annex 1

Terms of Reference for Review of Evidence on Broad Outcome of Public Sector Management Regime 30/11/99

The Crown is seeking a report summarising research material on the outcomes of the current public sector management regime written over the last decade, with a particular emphasis on material written in the last five years (the “report”).

Purpose of Report

The report will be drawn upon by the Crown in preparing its own reports, briefing material on the outcomes from the regime and in considering further evaluation work to plug identified gaps.

CRITERIA FOR EVALUATING OUTCOMES

Boston (1999), pages 8 to 11, suggests criteria for evaluating outcomes which may be of assistance in considering outcomes. These include:

1. Economic and Financial criteria
2. Constitutional criteria
3. Accountability criteria
4. Ethical criteria
5. Institutional design criteria
6. Management criteria
7. Ownership interest criteria
8. Purchase interest criteria
9. Client and citizenship criteria
10. Information-related criteria

All of these are likely to be relevant to some extent, but with economic and financial criteria being particularly important.

The perspective for the evaluation should generally be that of New Zealand’s interests as a whole, rather than that of any single group, such as Parliament, the Executive or particular private interests. Brief comment on effects on individual group interests may be appropriate, at the contractor’s discretion.

EMPIRICAL EMPHASIS

The report should have a strongly empirical content, where possible drawing on quantitative material, case studies or strong anecdotes. It should cite the specific research

material used as evidence and briefly assess any obvious strengths and weaknesses of the material.

COVERAGE

Coverage should include the core public sector and Crown Entities, but not SOEs. Crown Companies, educational institutions, schools and hospitals should be included only if necessary to cover the core public sector and Crown Entity picture.

SPECIFIC QUESTIONS

Particular questions that should be addressed include:

- What have been the advantages of the regime adopted?
- What has worked well?
- Is the system demonstrating any fundamental problems?
- What areas are identified as needing further work to improve the regime?
- In what areas is further evaluation is most required?

STRUCTURE OF REPORT

The report's structure is a matter for the Contractor to determine, after reviewing the material. The report's structure should be reviewed with the Crown before the first draft is started.

EXISTING REGIME

For the purposes of the report, the existing regime should be taken to include:

- The present accountability system, including its relative emphasis on outputs, outcomes and treatment of inputs
- Emphasis on Chief Executive performance with increased managerial freedom, including input choice and financial management
- Central setting of strategic priorities
- Purchase/ Ownership split
- Separation of operations/ policy/ regulation
- Use of more competitive/ commercial models for service delivery
- Present institutional structures
- Reforms embodied in the State Sector Act and Public Finance Act
- Introduction of GAAP and Accrual accounting
- Current human resource management approaches

In general, we would prefer that relatively more attention be paid to the first 6 items in the list above, although all items should be covered.

COUNTERFACTUAL

The counterfactuals for the purposes of the summary should include both:

- How does the system meet the objectives expressed for it? These might include:
 - Assisting the Government to translate its strategy into action
 - Informing decision making and accountability
 - Encouraging a responsive and efficient public sector
(See Treasury (1997), “Putting It Together”, p67)
- How has the system operated compared with the pre-reform environment prior to 1988?

TIMING

A draft report should be provided by 15 December 1999. The Crown will provide comments by 16 December, allowing finalisation by 17 December. The Contractor will provide the report in both hard copy and in electronic form saved in either Word 6 or Word 7 format.

RESOURCES

It is envisaged that 5-7 days of the Contractor’s time will be required.

MATERIAL TO REVIEW

This lists some material that should be considered, not necessarily in equal depth. The Contractor is likely to be aware of other material.

Basil Logan (1991), “Review of State Sector Reforms”

Treasury (1997), “Putting It Together”

Murray Petrie (1998), “Organisational Transformation: The Income Support Experience”
SSC Working papers

Allen Schick (1996), “The Spirit of Reform – Managing the New Zealand State Sector in a Time of Change”

Jonathan Boston – especially (1999), “The New Zealand Model of Public Management: A Brief Assessment”, 31 May 1999 (This also lists other reviews.)

Public Sector Performance reports including Hitchiner and PSP (1999),
“Evaluation of Ex Ante Accountability Documentation” (Report to Treasury)

OECD (1999) New Zealand Economic Survey

Graham Scott (1996) “Government Reform in New Zealand” IMF occasional
paper 140

Controller and Auditor General (1999) “Third Report for 1999”

Jim Brumby, Peter Edmonds, Kim Honeyfield (1996), “Effects of Public Sector

Financial Management Reform (FMR) in New Zealand”, July 1996, paper to
Australasian Evaluation Society Conference
Brian Easton, (1997), “The Commercialisation of New Zealand”
Jane Kelsey
Victoria Link – case studies
Comments by former Ministers, after experience with the reforms.
Surveys of views of Departmental Chief Executives and Ministers on the reforms (eg
Brenda Tahi – thesis on strategic management.)
Treasury, Financial Management Reviews summaries

Other possible sources of material for review include:

Treasury: List of Publications/Papers on Public Sector Reform
Jonathan Boston, John Martin, June Pallot and Pat Walsh (1996), “Public
Management – The New Zealand Model”, Bibliography, pp 372- 396

Much of the material in these last two lists is earlier material. We would not expect that it
all be reviewed.